



Holomua

Fall 2004

2004 Legislation that May Affect You

The 2004 Hawaii State Legislature passed the following bills that affect active members, retirees and beneficiaries of the ERS. Additional information on each bill is available online at www.capitol.hawaii.gov/. Select *Bill Status & Docs*, go to the box titled *2004 Regular Session Bills Introduced, Passed, and Vetoed*, click on *List of Acts (by Act number)* then select the act number.

ACT 177: Police Officer Disability Benefit

- Allows police officers with 10 years of service who are medically disqualified by the employer's physician due to a service-connected disability, to retain the 2.5% benefit for each year of police officer service.
- Enables them to work in another position in the Contributory Plan and retire on a split formula.

ACT 179: Retirement Plan Changes

- Establishes the new Hybrid Plan and authorizes the new "pop-up" retirement benefit (see related stories).
- Increases Noncontributory service-connected disability retirement benefit from 15% to 35% of the average final compensation.
- Enables active death benefits to be paid to the designated beneficiary if a member files for retirement but dies prior to the retirement date.
- Allows Noncontributory retiree's beneficiary to select the active death benefit if the retiree dies within one

year of the retirement date. This "look back" feature is already available to Contributory Plan retirees.

ACT 180: University of Hawaii Optional Retirement System

- Allows the implementation of the Optional Retirement System (ORS) by the UH for faculty and certain administrative, professional and technical employees hired after implementation of ORS.
- Fixes the State's contribution rate at 6% with a maximum annual contribution of 6% of \$100,000.
- Defines ORS service as non-creditable for ERS purposes.
- Specifies July 1, 2009 sunset date.

ACT 181: Employer Funding Methodology

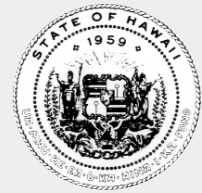
- Requires State and county government employer contributions to the ERS to be based on a percentage of payroll beginning July 1, 2005.

ACT 182: Federal Tax Compliance

- Amends ERS statutes to comply with Federal tax qualification requirements.
- Gives Board of Trustees expedited rule-making authority to adopt rules to comply with IRS tax law changes.

ACT 183: Federal Tax Compliance

- Amends ERS statutes to comply with Federal tax limits on compensation that can be used to calculate a member's retirement benefit retroactive to July 1, 1996.
- Establishes a nonqualified plan for members who exceeded IRS ceilings up to June 30, 2004.



Published by the State of Hawaii Employees' Retirement System (ERS)

The name *Holomua* comes from the words *holo*, which relates to motion, and *mua*, which means "in front of" or "ahead." Combined, these two Hawaiian words represent forward movement and progress. The canoe paddlers found in the pages of this newsletter symbolize the teamwork, dedication, and hard work required for excellence and success.

Improved ERS Telephone System

The ERS recently implemented the Automated Information System, a new telephone system that routes calls more efficiently, reduces the waiting time for assistance, and provides more flexibility and convenience. Members, retirees and beneficiaries can access recorded information 24 hours a day, seven days a week and speak to an ERS representative Monday to Friday 7:45 a.m. – 4:30 p.m. by calling: **586-1735**

The following options are available using any telephone keypad:

- Press 1 **Office hours and location**
- Press 2 **Retirement eligibility requirements**
- Press 3 **Applying for retirement**
- Press 4 **Reporting a death**
- Press 5 **Pension payment information**
- Press 6 **How to claim service**
- Press 7 **Disability retirement**
- Press 0 **Speak to an ERS representative**

ERS Funding

The long-range goal of the ERS is to become 100% fully funded. That means the ERS would have sufficient assets to meet all of its obligations to its members, retirees and beneficiaries. The funded ratio on an actuarial basis was 75.9% on June 30, 2003 and 64.3% if the fair value of assets was used.

With the enactment of Act 181 by the 2004 Legislature, the employers' contributions to the ERS will be paid currently instead of a 3-year lag and will be based on a percentage of payroll beginning July 1, 2005. This change in funding methodology will provide the employers with a more predictable budget and ERS with a more predictable cash flow.

This important step will strengthen the ERS and help ensure that sufficient funds will be available to pay benefits promised to current and future retirees.



David Shimabukuro
ERS Administrator



How to Contact Us

Monday-Friday

7:45 a.m. – 4:30 p.m.

Oahu: 586-1735

Hawaii: 974-4077

toll free 974-4000, ext. 61735

Maui: 984-8181

toll free 984-2400, ext. 61735

Kauai: 274-3010

toll free 274-3141, ext. 61735

Molokai/Lanai:

toll free (800) 468-4644, ext. 61735

U.S. Mainland only:

toll free (888) 659-0708

24 HOURS A DAY:

Hotline: 586-1660

Fax: (808) 587-5766

Website: www2.hawaii.gov/ers

Introducing the Hybrid Contributory Plan

The Board of Trustees is pleased to announce that the Legislature and Governor recently approved the creation of a new Hybrid Contributory Plan. Under the provisions of Act 179, Noncontributory Plan members and certain Contributory Plan members will be given the opportunity to join the new Hybrid Plan beginning February 28, 2006. Elections must be made by March 31, 2006. The effective date of the new Hybrid Plan is July 1, 2006 and all new employees hired from July 1, 2006 on will be required to join the Hybrid Plan.

The Hybrid Plan is cost neutral to the State and county government employers. Here's a summary of the different retirement plan provisions:

SUMMARY OF RETIREMENT PLANS

	Employee Contribution Rate	Benefit Percentage for Each Year of Service	Normal Retirement Age and Service
Contributory Plan	7.8 %	2 %	55 and 5 years
Noncontributory Plan	-0-	1.25 %	62 and 10 years or 55 and 30 years
Hybrid Plan	6 %	2 %	62 and 5 years or 55 and 30 years

Members in the Hybrid Plan who terminate with less than five years of service can request a refund of their retirement contributions plus 4.5% annual interest. Members who terminate with five or more years of service have the option of either leaving their contributions with the ERS or requesting a refund that includes an additional 50% of their accumulated retirement employee contributions, plus interest. Any future retirement benefit is forfeited when a refund is taken.

A consulting firm will be retained to provide information and develop various benefit calculators to help 55,000 eligible members decide whether to join the new Hybrid Plan. Statewide presentations will begin after the summer of 2005. Members can also access the ERS website at www2.hawaii.gov/ers for more detailed information.

Board of Trustees



Back Row (L-R): Darwin J. Hamamoto; Henry F. Beerman; Jackie Ferguson-Miyamoto, Chair; Richard L. Humphreys, Vice Chair; Colbert M. Matsumoto.
Front Row (L-R): Georgina K. Kawamura; Odetta U. Fujimori; Pili'alo'ha E. Lee Loy.

Chair's Corner

There's more to the Board of Trustees than most members of the ERS realize. Although their most recognized function is the oversight of financial investments, there are many other facets of responsibility entrusted to the Board. One of these is the disposition of disability retirement applications.

After the disability applications are filed with the ERS, in-depth fact-finding occurs involving the employee, employee's department and physicians. Any information that helps determine disability is sought. The information filters through the ERS staff to the Medical Board, which is made up of physicians hired by the Trustees. These medical experts consider all the available information then submit their recommendation to the Board of Trustees who ultimately make the final determination.

Over the years, the number of disability applications has increased. The Board operates with a sense of urgency, trying to review as many applications as possible, as quickly as possible. However, the processing involves an important succession of steps that are sometimes lengthy, but necessary to protect the rights of both the applicant and the other beneficiaries of the ERS. This is just one more valuable benefit that we all have as members of the ERS.

Jackie Ferguson-Miyamoto
Chair, ERS Board of Trustees



"Pop-Up" and New Retirement Factors Expected to Favorably Impact Retirement Benefit

A provision in Act 179, SLH 2004, enables the ERS to implement a new "pop-up" feature for the joint survivor retirement options beginning December 1, 2004. Currently, these joint survivor options provide a lifetime-reduced pension for the retiree and a continuing monthly benefit for one beneficiary when the retiree dies. If the beneficiary dies before the retiree, the same reduced pension continues to the retiree.

With the "pop-up" feature, if the beneficiary passes away before the retiree, the retiree's reduced pension "pops-up" to the corresponding Maximum Allowance instead of remaining at the reduced amount. Here's an example:

<u>Option</u>	<u>Monthly Benefit</u>
Maximum Allowance	\$1,000
Option Two	\$ 890

In the above example, the retiree's Option Two monthly benefit would "pop-up" from \$890 to \$1,000 if the beneficiary dies before the retiree.

In addition, the Board of Trustees adopted new actuarial factors effective December 1, 2004. These new factors reflect members' longer life expectancies, the automatic post retirement increases, and are age-specific instead of using five-year age groupings. These changes affect all options except the Maximum Allowance.

Generally, both the "pop-up" feature and the new actuarial factors are expected to have a favorable impact on the retirement benefit.

However, members planning to retire in the near future are encouraged to utilize the online benefit calculator at the ERS website (www2.hawaii.gov/ers) to determine if the current factors are more beneficial. The calculator will compute estimates based on current factors for retirement up to November 1, 2004. The new factors and "pop-up" feature will be reflected in calculations for retirement December 1, 2004 or later.

"Changed addresses or bank accounts recently?"

If so, we want to hear from you!



- ***Are you moving or changing your bank account?***

Remember to notify the ERS. Annually, more than 500 pensioners experience a delay of two to four weeks before receiving their benefit payments or important documents such as Form 1099R, due to incorrect addresses or bank accounts.

- ***How do I notify the ERS?***

Submit a letter with your name, Social Security Number, information being corrected, and your signature. You can also print the "Pensioner's Address Change/Direct Deposit Authorization" form off the ERS website or call the ERS to have the form mailed to you.

- ***I already notified the post office of my new address. Why do I need to notify the ERS?***

Changes that affect benefit payments must be made in writing to protect the retiree and ensure payments are accurate. The U.S. Postal Service will not deliver any ERS mail to a forwarding address. Mail will be returned to the ERS for follow up with the retiree.

- ***How long before any change is effective?***

The ERS needs two weeks for address changes and four to six weeks for bank account changes.

State of Hawaii Employees' Retirement System

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Honolulu, HI 96813-2980

RETURN SERVICE REQUESTED

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ERS @ Work

The ERS' Investment Office is responsible for planning, organizing and administering the investment-related activities of the ERS. The ERS investment portfolio, valued at approximately \$8.5 billion, has an asset allocation that is diversified across many asset classes. These asset classes include U.S. stocks and bonds; international stocks and bonds; emerging markets; short-term cash investments; real estate; private equity; commercial mortgages; and timber farming.

The ERS utilizes 28 external investment management companies to invest its assets. The Investment Office, consisting of the Chief Investment Officer T. Kimo Blaisdell and Mercedes Nakaza, is responsible for providing oversight of the investment manager's activity. The Investment Office evaluates and reviews the security trading activities and overall portfolio management of the external investment management companies. The Chief Investment Officer meets with investment managers to review performance and to monitor compliance with investment policies and procedures.



The ERS Board of Trustees expects that ERS' investment managers are held to the highest standards, which sometimes can result in managers being terminated. The Investment Office will continue to scrutinize the performance, ethics and organizational changes of ERS' investment managers and address any potential issues that may arise. In addition to reviewing existing investment managers, the Investment Office also reviews potential investment managers that could be added to the portfolio. Over the last year, the ERS has added four new investment managers; the number could grow even more as ERS is considering the addition of several more managers over the next six months.

The performance of the investment portfolio has shown marked improvement and generated a 15.5% return for the fiscal year ended June 30, 2004. In addition to the one-year return, the Investment Office also monitors the long-term investment performance. Over the last 10 years, the investment portfolio has returned an average of 8.4%, ahead of the target return of 8%.

The Investment Office is always seeking ways to improve the investment portfolio. The goal is to provide sufficient assets to meet the retirement needs for past, present and future members of the retirement system.